

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Second Quarter of 2003 through the Fourth Quarter of 2006

The state's economic outlook has improved marginally compared to the previous forecast. In July 2003 it was reported Idaho's economic growth would accelerate over the next three years. This could be seen in two closely monitored measures: Idaho nonfarm employment and personal income. Idaho nonfarm employment was expected to increase 0.4% this year, 1.2% next year, and about 1.6% in both 2005 and 2006. In the current forecast nonfarm employment is projected to grow 0.8% in 2003, 1.3% in 2004, 1.9% in 2005, and 1.8% in 2006. The biggest improvement occurs in 2003, where nonfarm employment is predicted to grow twice as fast as was previously projected. This change is due to new data that show employment in the first quarter of 2003 was more than 3,000 higher than was estimated in July 2003.

Idaho nominal personal income is predicted to increase 4.2% in 2003, 5.6% in 2004, 5.0% in 2005, and 5.5% in 2006. In the previous forecast, it was expected to grow 3.5% in 2003, 5.2% in 2004, 5.2% in 2005, and 5.5% in 2006. The differences are more pronounced when income is adjusted for inflation because prices rise slower in this forecast compared to the previous one. Specifically, Idaho real personal income was forecast in July 2003 to rise 1.6% this year, 3.4% next year, 2.9% in 2005, and 3.1% in 2006. In the current forecast, Idaho real personal income increases 2.3% in 2003, 4.3% in 2004, 3.2% in 2005, and 3.7% in 2006.

If the current forecast holds, Idaho should be closing a chapter of protracted softness and opening a chapter of faster growth. Before putting the past behind us, it is a good idea to review it. The focus here will be on employment. Slow nonfarm employment growth was the rule during the years 2001 to 2003. As recently as 2000, Idaho was creating jobs at a healthy 3.8% pace. The 2001 recession exacted a toll on Idaho, and the state's growth slowed to half that of the previous year. However, the worst was yet to come. This occurred in 2002, when the state failed to gain jobs. Job growth is expected to pick up in 2003, but it is predicted to be less than 1%.

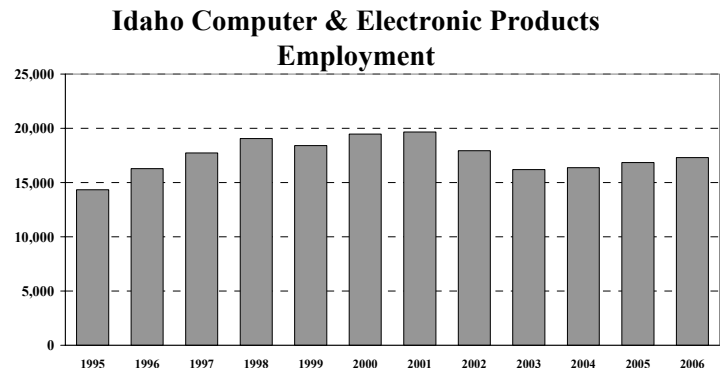
A major reason for the soft job performance was the rash of layoffs during this period. While layoffs occur every year, 2001 through 2003 seemed to have more than its fair share. Idaho's job picture was still healthy in 2000, yet about 1,200 jobs were eliminated due to layoffs. This changed dramatically the next year. In 2001, nearly 5,100 jobs were lost, as the number layoffs increased. The situation improved last year, when layoffs accounted for about 3,100 lost jobs. The numbers of jobs lost to layoffs this year is expected to rise. There have been 51 announced layoffs through August 2003. It is estimated these layoffs will cost the state around 4,500 jobs. Interestingly, Idaho total nonfarm employment should rise slightly in 2003 despite these layoffs.

Idaho's economy appears on the cusp of better times. While both nonfarm employment and personal income growth will improve, they are not expected to reach the levels experienced during the height of the state's long expansion. This may seem disappointing to some, but most would welcome the state's projected economic performance during the forecast years compared to that of the previous three years.

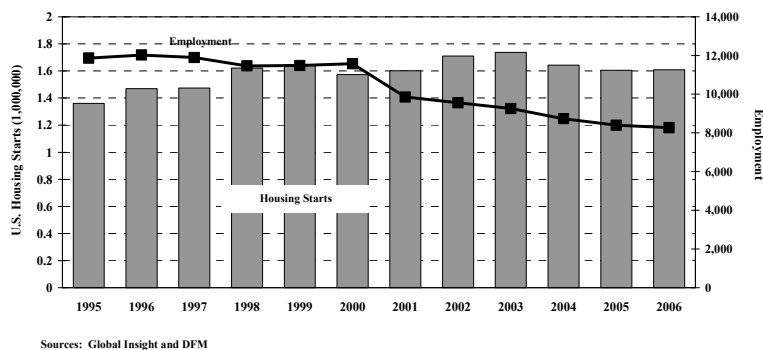
SELECTED IDAHO ECONOMIC INDICATORS

Computer and Electronics: Idaho's computer and electronics sector is weathering the impacts of an industry-wide downturn. Unlike the previous recession, when Idaho's high-tech sector actually prospered, the state's largest manufacturing employer has been buffeted by the latest tempest. Interestingly, national and Idaho declines were perfectly synchronized, with both showing their first employment losses in the second quarter of 2001. Soon after the high-tech bubble burst, national

computer and electronics employment shed jobs at a 14.4% annual rate. In Idaho this sector's employment fell at a 12.5% annual rate. This was just the first in a series of quarterly declines. Before the year was out, Jabil Circuit, Micronpc.com, SCP Global Technologies, Micron MCMS, AMI, and Hewlett-Packard all had announced layoffs. As a result, this sector's employment growth slowed from 5.7% in 2000 to 1.0% in 2001. Unfortunately, the worse was yet to come. The Gem State's computer and electronics sector suffered another round of layoffs in 2002, which caused employment to decline 8.8% in that year. It is not difficult to understand how hard this sector was hit. Four of the seven Idaho companies reporting layoffs of at least 100 persons in 2002 were high-tech firms. The news is even worse when measured in jobs. These seven companies laid off 1,515 employees in 2002, with the four high-tech companies accounting for 1,104 (73%) of the total decline. That same year, Jabil Circuit announced it was halting its Idaho operations and was putting its two-year old Meridian plant up for sale. One notable exception to the list of companies with significant layoffs was Micron Technology, the state's largest high-tech employer. However, it joined the ranks of companies laying off employees in 2003. Early that year the company announced it was cutting about 1,100 jobs in Idaho. This move was part of the company's plan to reduce costs. Micron is the world's second largest manufacturer of computer memory products. Its primary competitors are Samsung, Infineon, and Hynix. Recently, the price for memory chips has been soft due to an excess supply of chips. Since Micron competes in a global market in which it has no control over prices, it must constantly find ways to lower its own costs in order to remain competitive. Prices have also been hurt by weak demand caused by the collapse in business investment. After three years of dismal conditions, it appears the outlook for this sector is improving. Investment in computer equipment and software appear poised for a recovery. Computer systems and software purchased during the last expansion are nearing the end of their usefulness. In addition, the high-productivity returns for investing in computers should boost demand. Companies wanting to make these investments will find it will be relatively easy thanks to low interest rates, attractive depreciation treatment, and improved corporate cash flow. As a result, real investment in equipment and software should rise 4.6% in 2003, 9.9% in 2004, 9.6% in 2005, and 8.1% in 2006. Unfortunately, this will not translate to a quick job recovery for Idaho's high-tech sector because of the global surplus of manufacturing capacity. Idaho computer and electronics employment is expected to drop 9.7% this year before rising 1.1% in 2004, 2.8% in 2005, and 2.7% in 2006.



Idaho Logging & Wood Products Employment and U.S. Housing Starts



Logging and Wood Products:

Employment in the Gem State's logging and wood products sector is expected to decline due to ongoing structural changes. This is a change from what typically happens in resource industries. In general, the fortunes of these industries ebb and flow with the business cycle. During periods of economic prosperity demand for their products is strong and these industries grow. When the economy falls on hard times, demand weakens and these

companies contract. If this were still the case, Idaho's logging and wood products sector should be doing well. Although the country suffered a recession in 2001, the housing sector has been surprisingly strong. There were 1.573 million housing units started in the U.S. in 2000. While this was a decline from the previous year, it was still at a very high level. Housing starts have grown steadily since then, and they should approach 1.750 million units this year. Despite the robust building activity during this period, the production of wood actually fell in three of the four years from 2000 to 2003. Employment also suffered. In Idaho, logging and wood products employment dropped from 11,570 in 2000 to 9,558 in 2002. Thus, employment has not benefited from the strong domestic demand. The problem is excess supply. Export markets have disappeared because of the global slowdown. The supply of wood products has flooded the hot U.S. market, keeping prices low. It has become difficult to sort out how much of the supply situation is cyclical and how much of it is structural. One structural problem is its excess manufacturing capacity. One estimate shows this industry is already geared up to produce 20% to 25% more lumber than is being consumed in North America and Canada. It is anticipated the industry will gradually regain its balance as the excess supply disappears. However, this will come from the closure of older and less-efficient mills. Another structural problem is the availability of timber from public lands. According to the U.S. Department of Agriculture, the total amount of timber harvested in Idaho fell from 1.8 million board feet in 1990 to 1.2 billion board feet in 2000, a 31% drop. These data also show that harvests from Idaho national forests fell an astounding 78% over this decade. Harvest levels are not expected to return to previous levels. These supply problems have exacted a high toll in Idaho. Approximately 125 jobs were lost when the former Boise Cascade mill in Cascade, Idaho ceased operations in 2001. About 250 jobs were lost last year when the Emmett, Idaho mill was closed. Potlatch shuttered its Jaype Mill near Pierce the previous year, a move that cost about 215 jobs. Mill closures are a region-wide phenomenon. *Random Lengths* recently reported that there were 337 sawmills, plywood plants, veneer mills, and board mills operating in Oregon, Washington, California, Idaho, and Montana, which was just over half the 663 that were in operation ten years ago. Mill closures and the resulting job losses are usually permanent. These closures have impacts well beyond each mill's gate. These operations are usually the largest employer in a community and pay high wages. Thus, the loss of these jobs has a ripple effect throughout the community. Idaho's logging and wood products employment is expected to decline from 9,259 in 2003 to 8,267 in 2006.

Mining and Chemicals: Both the mining and chemical sectors find themselves in the midst of challenging times. The mining sector is going through a protracted decline. The last time it had a net increase in jobs was 1997. It has experienced job losses in every year since then. Specifically, after peaking at nearly 3,000 jobs in 1997, employment fell to less than 1,800 jobs in 2002. This drop reflects a nearly 30% reduction in U.S. metal ore mining over the same period. Unfortunately, there is

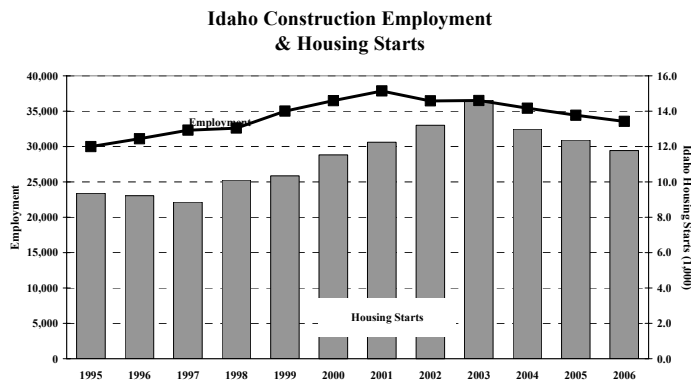
little relief in sight. The national forecast calls for another year of decline this year followed by a soft recovery. As a result, Idaho mining employment is projected to decline 4.1% this year, increase 1.2% in 2004, decrease 6.1% in 2005, and fall 5.5% in 2006. Looked at another way, mining employment goes from 1,758 jobs in 2002 to 1,512 jobs in 2006. The chemical sectors hard times may not have lasted as long as mining, but it has been severe. A short history shows this.



Although the Gem State's chemical sector had a few years with job losses, employment levels have been relatively stable over the last few years. This changed last year. Employment declined 17.2% in 2002 when 400 jobs were lost. This huge drop resulted from the closing of the Astaris (formerly FMC) elemental phosphorous plant located just outside of Pocatello. Unfortunately, the chemical sector is not expected to recover from this blow during the forecast period. After this year, agricultural chemical production is forecast to grow slowly. Idaho's chemical sector employment should post losses again in 2003 and 2004 before growing anemically in 2005 and 2006.

Nongoods-Producing Industries: The nongoods sector is expected to account for virtually all of the state's employment growth over the forecast period. A major component of this sector is the services industries. In Idaho last year more than four out of every ten jobs was in the services-producing sector. It has also been one of the most consistent engines for job growth. From 1991 to 2002, the number of service-producing jobs increased 63.2%. In comparison, total Idaho nonfarm employment expanded by 44.1%. The three largest services components are: professional and business services; education and health services; and leisure and hospitality services. Together they account for nearly 72% of total service-related employment in 2002. In addition, professional and business services and education and health services have posted strong, consistent growth. The next largest group consists of sectors with employment of around 20,000 each. Financial services; transportation, warehousing, and utilities; and other services make up this group. The smallest sector is information services with about 9,200 jobs. The services-producing sectors can be grouped another way, into those that are expected to grow faster than average and those that will grow slower than average. Over the forecast period Idaho services-producing employment should average 2.7% annual growth. Although only three sectors are expected to beat the average, they are major employers. Education and health services should be the fastest growing sector, averaging 3.4%. It will be followed closely by leisure and hospitality services, which advances 3.0%. The state's other large services employer, professional and business services, is forecast to grow 2.7%. Information services grow 2.2%. Financial Services employment is anticipated to average 2.5%, while other services and transportation, warehousing, and utilities are expected to average 0.8% growth. Another major component of the nongoods-producing sector is trade, which accounted for nearly two out of every ten Idaho jobs. After a slow showing this year, this sector's employment should advance 2.2% in 2004, 3.0% in 2005, and 2.5% in 2006. Overall, total employment in Idaho's nongoods-producing sector is forecast to rise 1.6% in 2003, 1.9% in 2004, 2.3% in 2005, and 2.2% in 2006.

Construction: In the course of just a couple years Idaho's construction sector has gone from a major engine of growth to a slight drag on the economy. As recently as 2001, construction employment expanded at a healthy 3.7% pace. However, it shrank by the same percent the very next year. This is

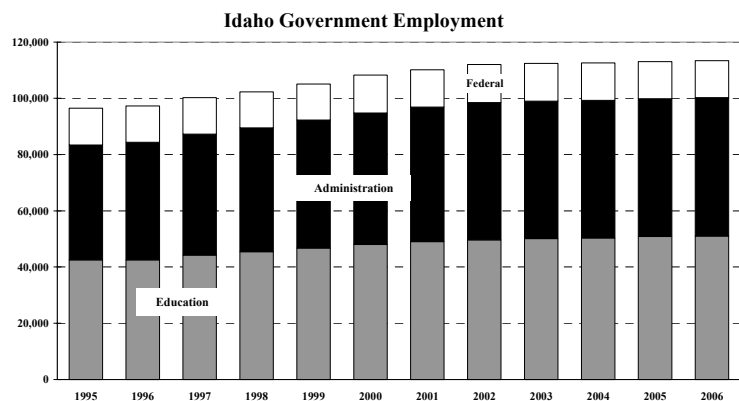


change is not trivial, as the construction sector was a major force in Idaho's long expansion. Construction employment expanded from 20,350 in 1991 to 37,860 in 2001, an 86% increase. This was nearly twice as fast as Idaho total nonfarm employment over the same period. Fueling this growth was the surge in housing starts. Historical data show Idaho housing starts climbed from 6,600 in 1991 to 13,205 in 2002. Much of this strength was due to the state's rapidly expanding population. There

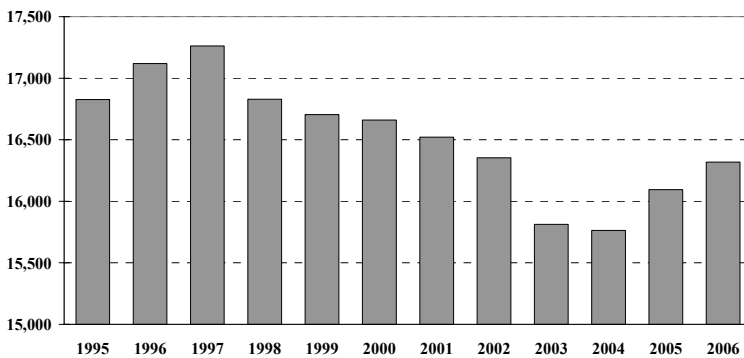
had been a dearth of building in the years leading up to the boom. When new citizens began pouring into the state, the construction industry found itself trying to keep up with demand. This has proven to be a positive. Because supply had been chasing demand for most of the expansion, there has been no significant inventory build up. As such, the housing industry did not collapse when the state's population growth began to ease. Instead, it should grow to 14,613 in 2003 thanks to low mortgage interest rates. After this year, starts should slide to the 12,000- to 13,000-units range. While this is a decrease from the previous year, it is still a historically high level. This helps to explain why Idaho's construction employment decline should be modest. Specifically, Idaho construction employment is projected to rise 0.2% in 2003 and fall 3.0% in 2004, 2.8% in 2005, and 2.6% in 2006.

Government: State and local government employment in Idaho should be limited over the forecast period. This benign outlook results from the anticipated cooling of population growth and imposition of budget limitations. This is a big change from the 1990s for state and local government employment. During that period, the influx of new residents strained the capacities of governments.

As a consequence, employment expanded 2.8% annually to meet the demands of the exploding population. Growth began to taper down as Idaho's population cooled with the start of the new millennium. New laws that limited the growth of local units of governments' budgets curbed growth further. As a result, Idaho state and local government employment slowed from 3.1% in 1999, to 2.7% in 2000, to 2.2% in 2001, and to 1.7% in 2002. It is expected to slow even more over the next few years. Specifically, Idaho state and local government employment should advance just 0.5% in 2003, increase 0.3% in 2004, rise 0.6% in 2005, and grow 0.4% in 2006. Federal government employment is not expected to fare as well as state and local employment. Specifically, it declines 0.6% in 2003, 1.4% in 2004, 0.6 in 2005, and 0.3% in 2006.



Idaho Food Processing Employment



Food Processing: Idaho's gigantic food processing sector is in the midst of challenging times. This cornerstone manufacturing industry is almost as large as the state's high-tech sector. Not only is it an important source of jobs, but it also adds significant value to raw Idaho farm products. Potato processors fall into this category. Currently, processors are dealing with weak demand for their products. It has been speculated the War with Iraq is to

blame for lower consumption because the uncertainty keeps people from going out to eat. Worries about the economy can also keep customers out of restaurants. Both of these are temporary. However, there is some concern some of the decreased demand will be permanent due to the spreading popularity of low-carbohydrate diets. Another fear is foreign appetites for processed potatoes may not be as deep as previously perceived. These all are cyclical concerns. There are also concerns about the structure of the industry and what share Idaho will play in its future. For example, J.R. Simplot Company recently opened its newest plant in Canada. In recent years, Canada has become a major player in the processed potato market. For example, it has been reported that the U.S. became a net importer of French fries in 2000. This trend is expected to continue through 2005 as additional Canadian capacity comes on line. Unfortunately, as more Canadian capacity comes online, it makes older, less efficient plants vulnerable to closures. This has occurred in Idaho. Simplot announced it plans to shutter its Heyburn, Idaho plant in April 2004. One Idaho sector that has enjoyed strong growth is the state's dairy and milk processing, particularly in the Magic Valley. Over the years, Idaho has seen its dairy herd expand and the capacity to process that milk increase. However, it is not immune from competition. Recently, a large milk processor announced it was expanding its operations in New Mexico instead of Idaho. One positive is Idaho's food processing industry is diversifying. Idaho is home to Grupo Modelo's first plant outside of Mexico. The company is building a \$64 million plant in Idaho Falls. The plant will have the capacity to process 100,000 metric tons of barley malt per year for the Mexican brewing company. Idaho food processing employment is forecast to dip 3.3% this year, fall 0.3% next year, expand 2.1% in 2005, and grow 1.4% in 2006.